

## Incentives under VAT VAT leaflet 110

**Q What types of incentive schemes currently exist?**

A There are broadly two types of incentive schemes. The first category is an exemption scheme where a dealer is exempt from the payment of tax on sales as well as on purchases of raw materials purchased against prescribed form, for a fixed period or/and up to a monetary limit. The second category is a deferment where a dealer is allowed to postpone the payment of tax on sales and purchase tax payable on raw materials purchased against prescribed form, for a fixed period or/and up to a monetary limit.

**Q Do I continue to avail the benefit of exemption from tax?**

A Yes. Sales by the eligible unit would be exempt from tax. However, VAT would be payable on the value added by subsequent sellers.

**Q Do I continue to get the benefit of purchases of raw materials at nil rate against Form BC or N-15EC?**

A No. Instead, an amount equal to the allowable set-off would be refunded. Form N-15EC and Form BC are abolished.

**Q How should I claim refund of set-off on raw materials?**

A The amount of refund due should be declared on your VAT return and followed by a refund application.

**Q How do I account for VAT if I have an exemption incentive?**

A You have to complete a VAT return Form 209 and file it quarterly (See leaflet MVAT107) Where you have been charged VAT on the purchase of raw materials you can claim a refund of the amount equal to the set-off admissible on the VAT return. Where you have been charged VAT on other business purchases you can claim this as a set-off, which can be adjusted against the VAT payable, if any.

**Q Do I issue tax invoices for sales to my VAT registered customers if I have an exemption incentive?**

A Yes. Tax invoice to contain certificate in the prescribed form and amount of tax should be shown as 'nil'.

**Q How should I account for VAT if I am a customer of a dealer with an exemption incentive?**

A Since you have not been charged VAT, there is no VAT for you to claim set-off on. You should charge your customer VAT on your profit margin (value addition) and issue a tax invoice showing VAT on this amount only.

**Q What amount do I deduct from my eligibility amount if I have an exemption incentive?**

A Amount to be deducted from the exemption incentive is as follows: Particulars - Amount to deducted from the monetary limit of incentives Turnover of sales under the MVAT Act of the goods specified in the Eligibility Certificate - A sum equal to the amount of VAT, which would have been payable Turnover of inter-state sales of the goods specified in the Eligibility Certificate - A sum equal to 4% of the turnover of sales, If the goods are generally liable to CST at a rate lower than 4%, a sum equal to such lower rate, A sum equal to 1% in the case of a Mega Project Note : Inter-State sales not supported by Form C are not eligible for exemption

**Q How do I account for VAT if I have a deferment incentive?**

A You should collect VAT on sales of goods. Payment of VAT collected is to be deferred for the agreed number of years or up to a monetary amount.

**Q Do I issue tax invoices for sales to my VAT registered customers if I have a deferment incentive?**

A Yes. You issue tax invoices for the full amount of tax due, collect it from your customers, and defer the payment of tax so collected until the prescribed limit.

**Q How should I account for VAT if I am a customer of a dealer with a deferment incentive?**

A You pay the VAT charged to you and claim set-off under the normal provisions.

**Q What amount do I deduct from my eligibility amount if I have a deferment incentive?**

A The amount of VAT payable on sale of the goods specified in the Eligibility Certificate is to be deducted from the eligibility amount.

**Q What are the VAT implications when I start to repay the VAT deferred under my incentive?**

A This is a financial transaction and there are no implications for VAT.

**Q What do I do to obtain further information?**

A Contact your local Sales Tax Office.